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By July 1, 1966, each school district in New York State was required to install a system of property accounting. This pamphlet provides a suggested method of property accounting to assist school districts in meeting this requirement. In addition, suggestions are made to help the districts record the information needed for fire insurance purposes. (HW)

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FINANCE PAMPHLET 8

inventory control of fixed assets

by

SCHOOL DISTRICT PERSONNEL

U.S. DEPARTMENT OF HEALTH, EDUCATION & WELFARE
OFFICE OF EDUCATION

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INTRODUCTION

Effective July 1, 1966, each school district in New York State must have installed a system of property accounting. The Uniform System of Accounts--Double-Entry Basis, published by the Department of Audit and Control, outlines this requirement in the section entitled, "Fixed Assets."

Since a similar requirement for less than eight teacher districts is outlined in the "Uniform System of Accounts for School District--Single Entry Basis," it is felt that the methods and procedures offered in this pamphlet will be equally useful to both "double-entry" and "single-entry" districts. Because of this similarity of requirement, the terms "manual" and "requirement," as used in this publication, will apply to both types of districts.

The scope of this pamphlet is two-fold: to provide a suggested method of property accounting that will assist districts in meeting the requirements of the manual, and suggestions which will aid districts in recording the information needed for fire insurance purposes. However, the primary purpose is to provide a means for accomplishing the requirement for property accounting. It should be clearly understood that the use of the inventory control system for insurance purposes is entirely optional. The fixed assets accounting section of the appropriate manual should be carefully reviewed prior to consideration of the following material.

CHAPTER I

PRELIMINARY CONSIDERATIONS

Basic Definitions

So that the balance of this pamphlet will be well understood by the reader, some basic terms are reviewed at this point. The following paragraphs are designed to give insight into the meaning and use of certain terms commonly used in connection with fixed asset control systems.

Fixed Assets - Land, buildings, machinery, furniture, and other equipment the school district intends to hold or continue in use over a long period of time

School Site - All of the land serving the school, together with all improvements to the site (other than buildings) such as grading, drainage, drives, parking areas, walks, plantings, play courts, and playfields

Building - Includes the building "shell" itself and the plumbing, sanitary, heating, ventilating, mechanical and electrical work. Also included are lockers, cabinets, and shelves which are built into the structure at the time of its construction.

Equipment - A movable or fixed unit of furniture or furnishings, an instrument, a machine, an apparatus, or a set of articles meeting all of the following conditions:

1. It retains its original shape and appearance with use.

2. It is nonexpendable, thus, if the article is damaged or some of its parts are lost or worn out, it is usually more feasible to repair it than replace it with an entirely new unit.

3. It represents an investment of money which makes it feasible and advisable to capitalize the item.

4. It does not lose its identity through incorporation into a different or more complex unit or substance.

Supplies - Any article or material which meets one or more of the following conditions:

1. It is consumed in use.

2. It loses its original shape or appearance with use.

3. It is expendable, thus, if the article is damaged or some of its parts are lost or worn out, it is usually more feasible to replace it with an entirely new unit rather than repair it.

4. It is an inexpensive item, having characteristics of equipment, whose small unit cost makes it inadvisable to capitalize the item.

5. It loses its identity through incorporation into a different or more complex unit or substance.

Depreciation - Loss in value or service life of fixed assets because of wear and tear through use, elapsed time, inadequacy, or obsolescence

Appraised Value - The values established by an estimate of the monetary value of a piece of property. Appraised value can be

established by use of original cost data, by the establishment of replacement cost, or by the establishment of actual cash value. The latter two terms can be defined as follows:

1. Replacement cost - The current cost to replace the property with like kind and quality at the same place. For sites, the current cost of purchasing the land and reproducing the improvements to the site at the same place.
2. Actual cash value - The replacement cost, less deductions for depreciation. For sites, it is the current cost of purchasing the land and replacing the improvements, less deductions for depreciation of improvements.

The above definitions should be kept in mind when considering the material contained in subsequent chapters.

Insurance Implications

The major portion of the task of establishing a property accounting system can be accomplished by contract with a commercial appraisal company whose primary functions are to provide insurance values on buildings and contents, and to provide assistance in the event of loss. Such companies are considered the source of the most accurate insurance values and the fact that they are independent parties can prove to be a distinct advantage in the adjustment of insurance losses.

The possibility of utilizing a commercial appraisal service should be evaluated, in terms of cost and services rendered, before plans are made to undertake the project of property accounting utilizing district personnel.

In order to provide this service, the appraisal company must take an inventory to establish proper insurance values. A machine "print out" ledger listing contents is commonly supplied. This is revised or replaced annually.

Districts that have current contracts in effect may have such ledgers that have not been up-dated since the physical inventory, although the company provides revised insurance values each year. In these cases, it may be practical to have the company bring the ledger up-to-date and revise it each year thereafter. It may also be feasible for district personnel to revise the ledger if records of changes are available in the district.

If the district decides to accomplish the requirement using its own facilities and personnel, the decision must be made, prior to the undertaking, as to whether or not the results will be used for insurance purposes. Such use is practical and logical, and it is assumed that most districts that install their own system will use their results in this manner.

Considerably more work is required to gain results that will be adequate for insurance purposes than is necessary to answer the basic requirement. In order to develop complete values for insurance purposes, all fixed assets should be assigned a value rather than only those worth $25 or more, and a value for supplies must be established. In order to develop values for supplies with acceptable accuracy, and to provide proper information in the event of an insurance loss, it is advisable to record all supply items except those that are consumed in use--such as paper stocks, pencils, and workbooks. Since most such supplies are

consumed within a year, it is felt that purchase records will furnish sufficiently accurate figures each year without the need for record cards. Supply items that are not consumed in use will be referred to as "recorded supply items" for the sake of convenience.

It should be stated at this point that although the manual indicates that only those fixed assets with an estimated life of one year or more and a minimum value of $25 need be recorded, it is intended that this minimum apply to each kind of item rather than to each unit. If a district owns one bookcase valued at $8, this item would not need to be inventoried. However, if a district owns four such bookcases, it would be necessary to inventory them, since the aggregate value exceeds $25.

The values of buildings must be modified by the deletion of uninsured items, such as excavations and foundations below the under-surface of the lowest floor. In addition to "built-in" equipment that is considered part of the building itself, certain other items of equipment are allowed to be insured with the building under the terms of the fire insurance policy. In order to take advantage of the fact that building fire insurance rates are lower than contents rates, such items must be specifically identified so that their value can be included with the value of the building. The insurance company or agent can supply a list of such items.

The manual indicates that the kind of value used is at the discretion of the board of education. The intent is, however, that the kind of value selected be used consistently for all property. If one kind of value is used for buildings, it should also be used for sites and equipment. If the system is to be used for insurance purposes, the choice is

limited to either replacement cost or actual cash value. If insurance is not a consideration, original cost, replacement cost, or actual cash value can be selected as the kind of value. The development of original cost figures for items in the initial inventory depends solely upon detailed procurement records. While it may be fairly simple to determine the original cost of buildings and sites, it can be very difficult to determine the original cost of equipment in the initial inventory. Original cost implies that no modification will be made to reflect price changes, and the manual does not require such modification. Unadjusted values, however, are no more than an historical record of dollars expended in past years, and bear little relationship to today's costs.

Replacement costs of sites and buildings can be established without particular difficulty, and replacement cost is the easiest kind of value to develop as far as equipment in the initial inventory is concerned. Current price lists, catalogs, or state contracts can supply this information. As far as new purchases of equipment are concerned, the purchase price is the replacement cost at the time of purchase. Replacement cost values, by definition, require modification to reflect price changes, and this can be accomplished without undue effort. The only consistent way of developing actual cash value is to first develop replacement cost, and then depreciate. Depreciation is a fairly complicated task, and unless there is a particular need for actual cash values, it is felt that replacement cost is the most practical kind of value to use, even if the system is not to be used for insurance purposes.

An Initial Perspective of the Task

In terms of the amount of actual time and work involved in the establishment and maintenance of a system of property control and valuation using district personnel, the task with respect to sites and buildings is insignificant compared to the task with respect to equipment, or equipment and supplies. With this point in mind, consideration of the following list of the steps necessary to establish a property control and valuation system may provide an initial perspective of the task.

1. Decide whether or not the property records will be used for insurance purposes and select the kind of value to be used.
2. Decide who will perform the various tasks in connection with physical inventory and maintenance of the records. Be sure that each person involved understands exactly what he is to do.
3. Develop or secure values for sites and buildings, and determine what property will be included with the building and what property will be included with equipment.
4. Develop item descriptions as far as possible and establish procedures for reporting changes in property that may occur during the initial inventory, or while it is being valued and organized.
5. Prepare the forms that will be used. Visible records systems equipment, if available in the district, is ideally suited for the suggested method of property control.
6. Take the initial inventory.

7. Assign values to the initial inventory and establish the records.
8. Post changes immediately as they occur and keep a close check on all procedures to insure smooth operation during the first year.
9. Spot check the records extensively at the end of the first year.
10. Supervise the annual value revision closely, to be sure it is done properly.

The method suggested contemplates an initial complete physical inventory and the establishment of a continuing record system which will be posted as changes occur. An annual "spot check" should be made to insure the accuracy of the records.

An alternative that might prove more practical for smaller districts is to establish records by room, post changes on a monthly basis, and check the complete inventory each year. The suggestions offered in the January 1965 "School Business Management News" contemplate the latter approach.

CHAPTER II

EQUIPMENT AND SUPPLIES

The material in this chapter offers a method of inventory control and valuation, and suggestions as to how to apply it.

Those districts that decide to accomplish only the basic requirements can, of course, ignore supplies as defined in the manual and any comments relative to supplies in this pamphlet. The term "property" as used in this chapter refers to equipment and supplies, since the chapter deals only with equipment and supplies. The system offered contemplates the permanent recording of property by building, although it is suggested that the initial inventory be conducted by room for practical reasons.

In many cases, there will be buildings with substantial additions that have been constructed over the years. Many such additions are considered to be separate structures for fire insurance rating purposes and separate rates are promulgated for their contents as well as for the structure itself. Care should be taken, if the system is to be used for insurance purposes, that the property in such a structure be recorded separately from the basic structure. This is necessary so that the separate rates can be applied to the proper values.

A comment with regard to property control is pertinent to the discussion regarding equipment and supplies. The requirement suggests that tags or decals may be used to facilitate property control. To affix a numbered decal or tag to each unit of property is an extremely

time-consuming task, and in order to make use of the numbers, each unit would have to be accounted for individually. This would mean a separate record of each student chair, desk, and so forth. An alternative is to paint the school district initials on the relatively small, high value units that are easily moved, to secure a degree of control.

Item Descriptions

Item descriptions must be detailed enough to: (1) allow the efficient utilization of property, (2) permit the accurate valuation of property and (3) allow the fair adjustment of an insurance loss, if the system is to be used for insurance purposes.

Descriptions must be understood by all persons concerned with the inventory system, and should be developed, as far as possible, before the initial inventory is taken.

The decision as to whether or not a separate item should be set up should be made primarily on the basis of significant difference in value. In some instances, however, a separate item may be required for other purposes. Student chairs of similar construction and price, but of varying heights, for example, can be combined in one item based on the sole criteria of similarity in price. It may be desirable, on the other hand, to set up two or more items because of the difference in height, in order to identify the different sizes so that they can be assigned with the proper size desks. Care must be taken not to establish so many separate items that the day-to-day posting task becomes very complicated.

Manufacturers' and distributors' catalogs, the list of supplies and equipment in the double-entry accounting manual, and State contracts can

be very helpful in developing item descriptions. Manufacturers' model numbers can be used to indicate quality, even if the item was made by a different manufacturer than the one whose catalog is used. The words, "or equal," can be used to indicate that all objects of the same type and price range are to be included, even if manufactured by a different concern.

If the system is used for insurance purposes, and insurance is carried on a replacement cost basis, the information necessary to initially value the property will be sufficient to establish its value in the event of loss.

If insurance is carried on an actual cash value basis, however, information as to the condition of the property (e.g. "good" or "fair") is desirable to properly adjust an insurance loss. Information as to date of manufacture is also of use for this purpose. It is impractical to try to maintain the permanent records in such fashion that the condition of units of multiple-unit items of property can be identified, because the item would have to be split, and separate items set up based on condition. Condition at the time of the initial inventory and date of manufacture (if available), however, can be recorded on the permanent record card for one-unit, high value items.

Descriptions should begin with the name of the basic kind of object being described. That is, rather than "electric typewriter," the description should begin with "typewriter, electric."

If recorded supply items are to be accounted for, they can be treated in the same manner as equipment items as far as item descriptions are concerned, except that in this area there are many low value items

that do not deserve detailed description. An ordinary, manually operated classroom pencil sharpener needs no more description than "pencil sharpener, manual." Supplies that are consumed in use need not be described, because only the total value of such property will be recorded.

The Classification System

A good classification system is the key to an efficient continuing inventory system. Its function is similar to that of a table of contents in a book--a means by which a variety of different objects can be located with ease. The alternative to a classification system of property is a single exhaustive list of items that is cumbersome and confusing. A good classification system for school property must allow inexperienced personnel to consistently place each unit of property in the same category as others like it by the application of simple rules. This consistent placement is of the utmost importance, as misclassified items can become "lost" and duplicate purchases can result.

The classification system can be organized so that all property in each room is listed under the room number or name. A major disadvantage of this approach is that each time property is moved from room to room, the transfer must be recorded in order to maintain the validity of the inventory records. In addition to this complication, it is felt that it is almost impossible to obtain reports of such transfers. Another disadvantage is that there are as many records of the same kinds of items as there are rooms that contain the items.

Another method of classification is to organize by function, with categories such as "general classroom" or "homemaking." Still another is

to classify according to the names of kinds of property, with categories such as "tables," "chairs," and "desks." Each of these methods works well with certain kinds of property, but neither is best suited for all kinds. The suggested classification system which follows is designed to combine the advantages of both methods, and to minimize the disadvantages.

The suggested classification system which appears as Exhibit E-1 divides property into two major groups--Group 1 and Group 2. The groups are subdivided into classes, as the exhibit indicates. Items for which descriptions must be developed locally are to be listed alphabetically under the classes indicated. The terms "unit" and "units" are used to describe the quantity of each item. Item numbers are not used since it is felt that they afford no particular advantage in a record system that is manually operated, and the use of such numbers might well result in more confusion than efficiency.

Group 1 classes are the names of familiar kinds of property and should include items that are or could be used in a number of functions throughout the district. There will generally be many units of the items in the Group 1 classes. Only those items in the furniture and fixtures area that are or could be used generally throughout the district, and that do not fit in one of the other Group 1 classes, should be listed under Class 12. Fire extinguishers, portable air conditioners, and portable heaters are examples of such items. The most specific class should always be chosen. The classes in Group 1 are more specific than those in Group 2 and should be reviewed before those in Group 2 are considered.

Group 2 is for "specialized" property that can be difficult to classify. The classes are functional categories, modified to take advantage of the good points of that method of classification and to minimize the disadvantages. Functional categories where the same kinds of items are found, are combined in order to minimize confusion as to where such property should be classified. A further modification of the purely functional method of classification is that property should be classified on the basis of <u>what</u> the property is designed to do rather than <u>which</u> functional category actually uses it. An illustration should serve to make this basic and very important distinction clear. A stove may be used in the domestic arts suite, but it is designed to cook food. This item should therefore be listed under Class 51, "Food Service" rather than under Class 55, "Vocational and Technical Education, Automobile Fleet and Plant Maintenance." The basic idea is to classify each item in only one class, because the classification of items in more than one class will eventually lead to confusion.

Musical instruments are often assigned to pupils who retain custody of them during the school year or semester, and some audio-visual items are constantly on the move between buildings. Item cards for such mobile equipment can be assigned to the item card file for the building or buildings used for storage or repair. Reference to assignment lists for musical instruments, and location control records for mobile audio-visual equipment can be made on the item cards. Such existing lists and records should be used rather than replaced, as long as they provide for efficient control.

The classes in Group 1 entitled, "Books" (class 03) and "Maps and Charts" (class 11) represent supply items, as defined by the manual. If supplies are not to be accounted for, these classes can be eliminated. By the same token, if more classes are deemed necessary, the list of Group 1 classes can be expanded. Extreme caution should be exercised if modification of the Group 2 classes is contemplated, however. The addition or deletion of classes from the Group 2 list can easily result in the situation where the same kind of item can be logically classified in more than one class.

The suggested system is designed to require only the recording of transfers between buildings, and the movement of property within the building is not reported or recorded at all.

Each building will have its own separate set of record cards for property in the building, organized in terms of the classification system. All such cards for all buildings will be kept in the business office, and changes will be posted to the cards as reports of such changes are received. Some examples may prove helpful to a more complete understanding of the suggested classification system.

1. Locker Room Benches - Classify in Group 1, class 02, "Benches and Other Seating NOC" (not otherwise classified).
2. Science Demonstration Table - With gas outlets, sinks and electrical receptacles. Classify in Group 2, class 54, "Science and Laboratory" rather than Group 1, class 14, "Tables, Stands and Carts." This is a specialized item that cannot be used for other than its designed purpose.
3. Cafeteria Table - Classify in Group 1, class 14, "Tables, Stands and Carts." The table may never leave the cafeteria,

but it could be put to a number of uses.

4. Dishwasher - Classify in Group 2, class 51, "Food Service," rather than in Group 2, class 55, "Vocational and Technical Education, Automobile Fleet and Plant Maintenance." It may actually be used in the home economics suite, but it is a food service kind of item.

5. Stand for a lathe - Assuming that this was designed for use only with the particular kind of lathe it supports, and that the lathe and stand are normally purchased as a unit, do not set up a separate item. Include it with the lathe, with a description such as "Lathe, with stand, etc."

6. Camera - Classify in Group 2, class 50, "Audio-Visual and Stage." It is a visual aid and there is no other more specific class. In some instances it may not be used as a teaching aid, but the functional classes of Group 2 should not be thought as being restricted to instructional items only.

A "Finding List" can be developed, similar to the one provided for titles of objects of expense in the last section of the double-entry manual, so that new items of the same kind can be classified in the same category.

Taking the Initial Inventory

Perhaps the most important consideration with respect to the initial inventory is the preparation for it. Before being undertaken, item descriptions should be developed as far as possible.

The inventory of Group 1 property can be taken by those who are generally familiar with school property. The inventory of Group 2 property, on the other hand, will of necessity involve the persons familiar with the specialized equipment in this category. The experience gained in taking the inventory of Group 1 property will afford the desirable consistency, and the persons familiar with the specialized property can provide the knowledge necessary for proper identification and valuation. The problem with many specialized items is to get the right kind of information. For example, it is necessary to know the distance from the blade to the support column of a band saw to properly assign a price.

Although the permanent records will be set up in accordance with the classification system, the initial inventory should be taken by room. The possibility of skips or duplicate counts is reduced to a minimum by this method, and it is felt that any other method will be significantly more time consuming. It is desirable for inventory personnel to record any readily available, additional information for one-unit high value items. Such "bonus" information might be valuable in the event of an insurance loss, or useful for other purposes.

The exhibit entitled, "Initial Inventory Sheet," illustrates a form that can be modified to better suit the individual situation. The condition column is for the development of insurance values on an actual cash value basis, and should be eliminated if unnecessary. Item descriptions developed prior to the initial inventory can, if desired, be included on the forms. Forms with different item descriptions for Group 1 property and Group 2 property can be developed.

It is not necessary to wait until the initial inventory of property in all buildings in the district has been completed to begin the organization and valuation task. If the latter task is to be accomplished by someone other than the person or persons who take the inventory, it can be undertaken as soon as the inventory of property in the first building is completed, and continued while the inventory personnel work in the next building.

If the inventory system is used for insurance purposes, care must be taken by inventory personnel that those items permanently attached to the buildings are so identified on the initial inventory sheets. Prior knowledge as to what was or will be included in the building valuation is necessary. If insurance is carried on an actual cash value basis, it is necessary to judge the condition of the property while conducting the initial inventory so that depreciation may be calculated. Depreciation for insurance purposes should be based on observed wear and tear and not on the age of the property, if at all possible. It will actually be more practical in most cases to judge condition than to try to determine the age of each unit of property. The suggested condition rating scale outlined below affords a method of grading property on hand at the time of the initial inventory in four grades of condition.

"E" - Excellent - 5% depreciation. Not more than three years old, in apparently new condition, with no structural weaknesses and no evidence of wear.

"G" - Good - 15% depreciation. No structural weaknesses. In good, sound usable condition. Some evidence of normal wear, but no more than surface scratches or mars.

"F" - Fair - 40% depreciation. Usable, but requires repair, or there is indication that repair will be required soon. Finish considerably worn, with more than superficial damage. Obsolescent items should be graded fair.

"P" - Poor - 90% depreciation. Not usable in its present condition. Obsolete. Requires substantial repair to make it usable.

There may be items in the district that would have a high replacement cost, but in their present condition are virtually without value. In such cases, even the application of 90 percent depreciation to the current replacement cost might result in an artificially high actual cash value figure. A piano, for example, with a current replacement cost of $1,500 might be worth only $25 in its present condition, but $1,500 less 90 percent depreciation would result in an actual cash value figure of $150. In such a case, the $25 figure would better reflect the actual cash value.

Organization and Valuation of the Initial Inventory Data

The first task in the organization and valuation procedure is to research the current unit prices (current unit replacement costs) and enter them in the column provided on the "Initial Inventory Sheet" (Exhibit E-2). The sources of current unit prices are current catalogs, price lists, State contracts and purchase records. On occasion, letters to manufacturers or distributors may be necessary. Although specialized training is not necessary to accomplish this task, familiarity with the sources of current unit prices will save a significant amount of time. The person in charge of purchasing will generally be best suited to this task. He or she may be able to quickly recall the source of a

difficult-to-price object, while someone else may labor to no avail in an effort to set a price. Delivery and installation costs can account for a significant part of the value of certain objects, and must therefore be included as part of the price.

The next task is to establish the item descriptions in their final form since they will be used in the continuing inventory system. A substantial portion of this task may have been done prior to the initial inventory, but information developed by the inventory may indicate modification of these pre-established item descriptions.

Once the item descriptions are developed in their final form, they should be organized in terms of the Groups and Classes of the classification system. Class headings should be entered on a worksheet with the item descriptions entered below them. The complete item description should be entered so that the worksheet can be used as the source document for preparation of the item cards. The "Organization and Valuation Worksheet" which appears as Exhibit E-3 illustrates this suggestion. Since the units of the various items are listed by room on the initial inventory sheets, it is necessary to add all the units of each item in each room in the building together and to enter these totals in the "unit totals" column opposite the applicable item description. Only one such total is needed if replacement cost values are to be developed. If actual cash value figures are to be determined, however, there must be separate unit totals for each of the condition rating scale categories (excellent, good, fair, poor) that were found to apply to the units of each item. After the worksheet entries have been made, the job of preparing the permanent record cards can be undertaken.

If the system is to be used for insurance purposes, an annual cost estimate should be determined for supplies that are consumed in use.

Preparation of the Permanent Inventory Cards for Equipment and Supplies

The record cards for equipment and supplies are the "Item Card," and the "Value Summary Card-Equipment and Supplies" which appear as Exhibits E-4 and E-5. The Item Card is the basic record of the inventory system, and the Value Summary Card is for the recording of total values of the property in each building on an annual basis.

If recorded supply items are to be accounted for, the item cards for them must be identified so that separate total item values can be calculated for equipment items and for recorded supply items. This is necessary because only the total value of equipment must be posted to the K104 account which is explained on page 158 of the Double-Entry Manual. The separate identity of recorded supply items can be secured by cutting off the top right corner of the card diagonally with a scissors. Items of equipment that are insurable with the building must also be identified so that separate total values can be calculated. This can be accomplished by using cards of a different color (green, for the purposes of this pamphlet) for such items.

Ideally, the person who will maintain the permanent record cards should be assigned the task of preparing them. This person must be thoroughly familiar with all of the methods and procedures of the inventory system, and preparing the initial permanent record cards is perhaps the best and most efficient way of gaining this familiarity.

Although the cards were designed with ordinary 8 x 5 inch file cards in mind, the records can be set up on any size card that is found to be

most practical. In fact, almost any visible records system available in the district will be more efficient for inventory control purposes than a system based on the use of ordinary file cards.

The preparation of the item card involves principally the transfer of information from the "Organization and Valuation Worksheet."

The Item Description space requires no comment, except to point out that the dotted diagonal line is provided to illustrate the method of identification of a recorded supply item.

The Unit Cost column is for recording the unit price of a purchased item. The current unit price from the worksheet should be entered here on the first line with the rest of the initial inventory data.

The Remarks column is for recording any information deemed pertinent.

The Card No. space is provided so that as cards are filed and replaced the new card will indicate how many preceded it. Old (filled) cards should not be destroyed, but kept in a "dead" file or stapled to the replacement cards.

The Class, Group and Building spaces are for class, group and building numbers. It is extremely important to enter the building number because it is the only way to identify the item as to location if the item cards are accidentally mixed with those of another building. The building number should be changed if the item card is transferred with all of the units of the item to another building.

The Initial Inventory Data spaces need little comment, except to point out that "condition" can be indicated only for a one-unit item.

The Date of Inventory Check spaces are provided for "spot-check" purposes. Errors can be noted in similar fashion to an ordinary entry, and explained in remarks.

There are no total item values on the item card. Although such totals would be desirable, the need to modify values for subsequent annual depreciation and/or the change in replacement costs would necessitate a series of arithmetic calculations for each item card in the inventory, each year. This would obviously be an extremely time-consuming task. Adequate results can be obtained by modifying total values once each year, at the same time that values are adjusted to reflect additions, and transfers between buildings. This annual adjustment of values is discussed in the section of this Chapter with that title.

The "Value Summary Card-Equipment and Supplies" needs little comment, because must of the information called for has been discussed. If actual cash values are developed, it is necessary in addition to maintain replacement cost values. If only replacement cost values are used, the actual cash value column is unnecessary. If the system will not be used for insurance purposes, the format can be simplified substantially.

Maintaining the Record Cards

The procedure established in the business office for posting additions, deletions, and transfers must become part of the office routine. Perhaps the best person for this task is the person who matches invoices with purchase orders and receives reports of new purchases.

Most item cards will remain inactive throughout the year. Index tabs of different colors can be affixed to the cards to signify additions, deletions, and transfers, as such changes are posted during the year. At the end of the year when the annual adjustment of values is undertaken, all cards will not have to be checked to see if they were active during the year.

Reporting Additions, Deletions, and Transfers Between Buildings

Only one person in each building should be responsible for reports of changes. He should be given the authority to refuse release of newly received property, or property that is to be deleted from his building's inventory until he has had the opportunity to note the transaction properly. This person might be the principal's secretary, the chief custodian, head mechanic, or other person who has the necessary stature to obtain cooperation. A form can be devised to report all three types of changes.

Annual Adjustment of Values

Since the inventory system as outlined does not contemplate changes in values as additions, deletions, and transfers of property occur, the values originally established must be adjusted at some point to reflect such changes. The period of one year is felt to be the best compromise between accuracy and convenience. In addition, most school districts carry fire insurance in the form of the Special Multi-Peril, Special Institutional policy or the Public and Institutional Property policy. Both require the execution of an annual statement of values. Total values should also be adjusted to reflect the changes in replacement

costs (increases or decreases in prices) to keep them current, and depreciation must be taken if actual cash values are used. Before the procedure for the adjustment of values can be understood, it is first necessary to explain how to develop a percentage factor to reflect price increases or decreases, and how to apply annual depreciation. Depreciation is necessary, of course, only if actual cash values are desired.

The most accurate way to adjust old values to reflect current prices is to research the new unit price of each item and recalculate new replacement cost total values each year. This would be a very time-consuming task. An acceptable alternative is to develop a "replacement cost change factor" by calculating the percentage increase or decrease between current unit prices for three or four items in each of a number of classes and last year's prices for the same items. The average of these percentages of price increase and decrease can be applied to the total old values to bring them up to date. The classes of property that it is felt will provide the best cross-section are as follows:

Class	04	Business and Office Machines and Devices
	06	Chairs, NOC
	14	Tables, Stands, and Carts
	50	Audio-Visual and Stage
	51	Food Service
	52	Health, Physical Education, and Recreation
	53	Music
	54	Science and Laboratory
	55	Vocational and Technical Education, Automobile Fleet, and Plant Maintenance

Items that represent a relatively high total value should be selected. Once selected, the same items can be used the following years. For the first annual adjustment after the initial inventory, current unit prices should be compared with the prices used to value the initial inventory. Thereafter, comparisons should involve the then current unit prices and the ones that were researched for development of the previous year's replacement cost change factor.

Depreciation of initial inventory values, if applied, is based on the grades of condition as assigned by initial inventory personnel. Since this method requires physical inspection of the property, its use is not feasible in the years between complete physical inventories. For the majority of property, it is suggested that depreciation be taken at a rate of 4 per cent per year. The only exceptions are those units of property that have high unit values, and for which individual depreciation would better reflect the actual cash value. Private passenger vehicles and trucks, for example, are best depreciated by annual reference to used car books, and buses are commonly depreciated at the rate of 10 per cent per year.

The steps in the annual adjustment of values procedure are listed separately for replacement cost and for actual cash values. Total values means total values of equipment, or equipment and recorded supply items.

Replacement Cost

1. Research current unit prices of transferred property, and extend times the number of units to develop total replacement cost value of transferred units. Subtract from total value for sending building and add to total value for receiving building.

2. Develop total replacement cost value of deleted property in the same manner as for transfers, and subtract from the total replacement cost value for the applicable building.
3. Apply Replacement Cost Change Factor to all total replacement cost values.
4. Add cost of new purchases to total replacement cost values.

Actual Cash Value

1. Determine the replacement cost total value of transfers from each sending building in the manner outlined above. Determine a depreciation factor for property in each sending building by calculating the percentage difference between the total replacement cost and the total actual cash value. Depreciate the replacement cost total value of transfers from each sending building by its depreciation factor. Deduct this result from the sending building's total actual cash value and add it to the receiving building's actual cash value total.
2. Determine the actual cash value total for deleted units and subtract it from the applicable building's actual cash value total.
3. Apply Replacement Cost Change Factor to all total actual cash values.
4. Add value of new purchases to total replacement cost values.
5. Depreciate actual cash value totals by the annual 4 per cent factor.

CHAPTER III

SITES AND BUILDINGS

Sites should be numbered consecutively starting with 01 and building numbers should be assigned in the same fashion. Since detailed instructions are not required to fill out the "Site Card" and "Building Card" which appear in Exhibits E-6 and E-7, the following paragraphs are concerned primarily with the development of values for sites and buildings.

Sites

The determination of the replacement cost of an existing site itself would probably not be particularly difficult if it has been acquired recently. The cost of the land and land improvements will generally be available and can be revised to reflect current replacement cost without undue difficulty. If the site is quite old, however, original cost figures would probably be too far out of date to be useful, or not available at all, and assistance from other than district personnel might be necessary. A local real estate broker may appraise the land at no cost, and a local contractor may supply, without charge, a fair approximation of the cost of reproduction of land improvements. An annual check with both sources can be made to determine if adjustment of values is necessary to reflect any change in replacement costs.

The useful life figure of 20 years for land improvements as provided in the Internal Revenue "Depreciation Guidelines and Rules" should serve as a satisfactory basis for depreciation. The replacement cost of land

improvements can be divided by 20 to determine the annual amount of depreciation, and this annual amount of depreciation times the age of the improvements to the land can be subtracted from the replacement cost to determine the current actual cash value. The year of construction of the building or buildings on the site will probably reveal the age of improvements to the land.

Buildings

Many insurance companies will appraise buildings for their customers without charge. They will generally supply replacement cost and actual cash value (sound value) figures and modify both for insurance purposes. In lieu of an appraisal from a reputable appraisal company, it is felt that generally speaking, an insurance company is the next best source of building values for insurance purposes. If an insurance company performs the appraisal, the district must know what building permanent fixtures are included in the values supplied so that there will be no duplication when the district records the equipment values.

If the company supplies only a value of the building "shell" itself, built-in items such as the public address system should be valued and added to the building figure. The insurance company should be asked to adjust annually both replacement cost and actual cash value figures (if used) to reflect the change in replacement cost, and to depreciate the actual cash value figure each year. The company should also be asked to indicate the value of uninsured items since the total building value should be used for accounting purposes.

If appraisal service is not available from an insurance company, it should not prove impossible for district personnel to accomplish the task.

The appraisal manuals used by insurance companies can be used by district personnel, but their use requires considerable training. As a less accurate alternative, simple charts are available that can afford adequate results. Both are revised periodically to account for changes in replacement costs and depreciation.

THE CLASSIFICATION SYSTEM

Group 1 Property

Class	
01	Beds and Cots
02	Benches and Other Seating NOC*
03	Books
04	Business and Office Machines and Devices
05	Chair--Desk Combination Units
06	Chairs, NOC
07	Chalk, Cork and Tackboards
08	Desks
09	Globes
10	Lockers (Non-Refrigerated)
11	Maps and Charts
12	Miscellaneous Group 1 Property
13	Shelves, Bookcases and Cabinets (Non-Refrigerated)
14	Tables, Stands and Carts

Group 2 Property

50	Audio-Visual and Stage
51	Food Service
52	Health, Physical Education and Recreation
53	Music
54	Science and Laboratory
55	Vocational and Technical Education, Automobile Fleet and Plant Maintenance

*NOC - Not Otherwise Classified.

INITIAL INVENTORY SHEET

Page ____ of _____ Pages

Building Name and No. Inventoried by: Date(s):

Location - Room No.	No. Units	E G F P	Description - Remarks	Current Unit Price

ORGANIZATION AND VALUATION WORKSHEET

for Initial Inventory Data

BLANKTOWN CENTRAL SCHOOL

Group No. 1 Bldg. Name Adams Junior High Bldg. No. 1 Date 5/12/66

Indicate class no. and name; list item descriptions under class headings	Condition – E.G.F.P.	Number of Units	Current Unit Price	Current Total Replacement Cost	Depreciation Factor	Current Total Actual Cash Value	Remarks – Special Instructions for preparation of cards. Indicate "green card". If item insurable with building, and "X" if recorded supply item.
06 chairs, Noc				*	**	*	
chair, student, tilt. steel and plastic, 13" h, Acme 304K or equal	E	30	$8.23	$247.00	95	235.00	Approx. 80% are Acme 304K
	G	120		988.00	85	840.00	
	F	60		494.00	60	296.00	
	P	15		123.00	10	12.00	
		225		$1852.00		$1383.00	

* Round off these totals

** Use these factors rather than 5%, 15%, 40% and 90% to save a step.

Item Description: Chair, student - tub. steel and plastic, 13" h, Acme 304K or equal

Type and Date of Entry	Quantity Change	Total Quantity	Unit Cost	Remarks
PI-5/66		225	$8.23	Approx. 80% are Acme 304K
P-8/66	10	235	8.57	P/O 66-18 (Nat'l chair Co.)
D-9/66	30	205		Scrapped
T-4/67	10	195		To bldg. 04

BLANKTOWN CENTRAL SCHOOL

Class: 06
Group: 1
Bldg.: 01
Card: 1

Initial Inventory Data:

R/C Total: $ 1852

ACV Total: $ 1383

Condition: E G F P

Date of Inventory Check:

Mo. | | | | | |

Yr. | | | | | |

Responsible Official:

A. Jones, Bldg. Principal

ITEM CARD

EXPLANATION OF SYMBOLS

PI = Physical Inventory–This symbol should be used to indicate entries resulting only from the initial inventory, and any other future complete physical inventory.

P = Purchased

D = Deleted– Lost, traded in, scrapped or otherwise disposed of, but not transferred.

T = Transferred – Moved to or from another building.

R/C = Replacement Cost

ACV = Actual Cash Value

IC = Inventory Check

VALUE SUMMARY CARD — EQUIPMENT AND SUPPLIES

CARD NO.		REPLACEMENT COST	Name of Building:	BLDG. NO.	
				SITE NO.	

Date of Annual Value Rev.	R/C Change Factor	Col. A Insurance with Bldg. – Green Card Totals	Col. B Insurance with contents White Card Totals	Col. C Property in the open	Col. D Recorded Supply Item Card Totals	Col. E Annual Cost of Expendable Supplies	Total Value of All Equipment and Supplies Total all Cols.	Total Insurance Value for Contents Col. B + D + E	Total Value Equipment Only – K104 Acct.
/66									
/67									
/68									
/69									
/70									
/71									
/72									
/73									
/74									
/75									
/76									
		Insurance Value – Transfer To Bldg. Card, Col. 4		Insurance Value – Property in the Open				Insurance Value – Contents	K104 Value

BACK

(Identical format except "Actual Cash Value" in lieu of "Replacement Cost".)

Description and Location

SITE NO.

– ORIGINAL COST DATA –

Purchase Price	$
Acquisition Expense - (Legal Fees, Searches)	$
Cost to Demolish Structure	$
Other Costs - (Improvements)	$
Total Orig. Cost of Site	$

SITE ADDITIONS OR DELETIONS

Date	Indicate "A" or "D"	VALUE	Explain Transaction On Other Side
		$	
		$	
		$	
		$	
		$	
		$	
		$	

Year	R/C of Land	R/C of Land Improvements	R/C Mod. Factor Land Imp.	ACV of Land Improvements	Deprec. Factor Land Imp.
1966					
1967					
1968					
1969					
1970					
1971					
1972					
1973					
1974					
1975					

BLANKTOWN CENTRAL SCHOOL

Date Site Acquired	Building Numbers					Card No.

SITE CARD

Source of Values:

Responsible Officials:

Description and Location

Bldg. No.

Site No.

Col. No.		1966	1967	1968	1969	1970	Col. No.
1	Basic Structure Incl. Perm. Fix., Arch. Fees & Legal						1
2	– Subtract – Uninsured Items & Legal Fees						2
3	Sub-Total						3
4	– Add – Value of Contents Insurable W/Bldg.						4
5	Insurable Total						5
	Annual Value Modif.: % Factor / Date						
	Source of Values						

– Original Cost Data –

Basic Structure: $

Permanent Fixtures: $

Architect Fees: $

Legal Fees: $

Total Orig. Cost: $

Date of Construction:
Date of Acquisition:

Col. 1 for K102 Account
Col. 5 for Insurance Valuation

Building Valuation Data – See Over for Additional Information

Sq. Feet of Area:

Cubic Feet:

Front – **REPLACEMENT COST**

BUILDING CARD

Date of Disposition:

Type of Disposition:

Card No.

Responsible Official

BLANKTOWN CENTRAL SCHOOL

Col. No.		1966	1967	1968	1969	1970	Col. No.
1	Basic Structure Incl. Perm. Fix., Arch. Fees & Legal						1
2	– Subtract – Uninsured Items & Legal Fees						2
3	Sub-Total						3
4	– Add – Value of Contents Insurance W/Bldg.						4
5	Insurable Total						5
	Depreciation Factor						

Record of Repairs or Additions to Bldg.
Use Separate Card for Additions that are Separately Rated for Fire Insurance Purposes.

Col. 1 for K102 Account
Col. 5 for Insurance Valuation

Date	Cost	Description

Additional Bldg. Valuation Data:

Back – Actual Cash Value

BUILDING CARD